

**DEPARTMENT OF CORRECTIONS  
AND VIRGINIA PAROLE BOARD**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2007**



## **AUDIT SUMMARY**

Our audit of the Department of Corrections and the Virginia Parole Board for the year ended June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention;
- an instance of noncompliance with applicable laws and regulations required to be reported; and
- inadequate implementation of corrective action with respect to the following prior audit findings:
  - Strengthen Supervisory Reviews over Capital Assets and Construction in Progress; and
  - Strengthen Procedures over Agency Transaction Vouchers.

This report does not include the Virginia Correctional Enterprises or the Department of Juvenile Justice.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### Develop Internal Controls for Leave Liability and Time Tracking System

The Department of Corrections recently adopted a new time and leave system (DOCXL) and ceased using the Commonwealth's leave accounting system. We found that DOCXL does not have adequate internal controls resulting in unreliable data. Best practices, such as audit trails, controls to prevent changes to formulas and computations, and the capture of all transactional activity, do not exist in DOCXL.

DOCXL is an Excel spreadsheet application that uses a spreadsheet template for each employee. Human Resource employees that have access to the network where DOCXL is stored are able to enter and change employee leave data.

We noted the following issues:

- Once a person has access to the network where employee spreadsheets are stored there is no security software to restrict their access either within Excel or the network. Therefore, users can enter, change, and delete data and formulas in any or all of the spreadsheets with no trail to indicate what changed and who did it.
- Human Resources enter hours worked and leave information each pay cycle and Corrections relies on supervisor and employee reviews and sign-offs to verify the accuracy of that cycle's information. However, the system does not prevent changes to a previous activity after the sign off occurs and as stated earlier there is no audit trail. As a result, someone could change information previously approved as correct by the supervisor without the supervisor detecting the alteration.
- DOCXL system does not protect computational formulas, which could result in intentional or unintentional formula changes that result in errors in the amount of leave and/or time reported.
- During our tests of DOCXL leave liability, we found material errors at both Lunenburg and Sussex I. The errors, when projected to the population, indicate that Corrections leave liability may be materially overstated. Neither these facilities nor Corrections Headquarters discovered the errors.
- We found one employee in which DOCXL incorrectly shows as having more than \$1 million of leave liability. We have concerns that Corrections may not have adequate controls to review and detect errors in DOCXL data.

The Department of Corrections would be an ideal candidate to implement an enterprise time and effort application that the Virginia Enterprise Applications Project Office is planning to offer. However, the timeframe for implementing any enterprise solution of this nature is uncertain at this time. As an interim solution we recommend that the Department of Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls.

Using Excel to manage the time and effort for an organization with more than 11,500 employees and numerous facilities is not adequate. Excel does not provide adequate security, leave an audit trail of transactions, or control changes to calculations. Until DOCXL is replaced, the accuracy of time and leave data at Corrections is questionable and identifying a perpetrator in the event that time or leave fraud is suspected may be impossible.

### Enforce Inventory Procedures

Corrections needs to enforce their existing procedures for taking their physical inventory and pricing items in the inventory system. Of the two correctional facilities audited, we found the following:

- Price discrepancies existed for the items selected for testing. Prices in the inventory system did not agree to the invoice provided to support the item's value and these discrepancies ranged from \$3.19 to \$40.79, and staff could not locate any documents to support why the discrepancies occurred.
- Discrepancies occurred between the auditor's and facilities' count for inventory items selected for testing. As example, the auditor counted one physical item but that item was not on either the count sheet or in the inventory system.
- The inventory tagging system was inadequate.

In addition, Corrections need to enforce their requirement that the same individual may not have physical access to the inventory and also have access to the system to make adjustments to the inventory quantities. For one of two correctional facilities audited, we found the inventory clerk appeared to have counted, listed, priced, and adjusted the inventory.

We recommend that Corrections increase facility personnel knowledge regarding proper segregation of duties and physical inventory procedures by incorporating regular training to strengthen this understanding. Corrections should also require facility business office supervisors to ensure their facility complies with inventory procedures.

### Properly Complete Employment Eligibility Verification Forms

Corrections is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the United States Citizenship and Immigration Services of the United States Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three days of employment.

During our review of twenty-five employees, we found the following exceptions:

- One employee did not date the form and two employees dated the form one day after employment began.
- Six employers did not certify the date of hire; six employers did not include an Issuing Authority when recording documents that establish identity and employment eligibility; one employer did not include the expiration date of a driver's license; and one employer listed an identity document in the wrong column.

All exceptions noted above are unacceptable according to the United States Citizenship and Immigration Services of the United States Department of Homeland Security in its Handbook for Employers. In addition, we also found that Corrections does not have a separate documented policy regarding I-9 compliance. Corrections should maintain its own documented policy and procedures that specifies the day-to-day operating procedures including who is responsible for carrying out these policies. The lack of documented policy and procedures increases the risk of non-compliance and the likelihood that errors will occur.

We recommend that the Human Resource Division document policy and procedures regarding the I-9 process, train human resource staff on the requirements of completing I-9 forms, and develop procedures to continuously review I-9 forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good I-9 process in place more important.

#### Strengthen Supervisory Reviews over Capital Assets and Construction in Progress

Corrections continues to have misstatements related to capital assets. The auditors identified the following misstatements during the audit that illustrate the need for more supervisory review to ensure that the staff follows existing policies and procedures.

- Corrections did not record all of its capital assets in the Fixed Asset Accounting and Control System (FAACS).
- Corrections did not recognize the need to capitalize or record as Construction in Progress (CIP) of approximately \$3.15 million for the VirginiaCORIS, an automated Offender Management Information System.
- Corrections required multiple year-end adjustments to their CIP.

Supervisors have oversight responsibility and should provide timely guidance and when necessary, seek additional clarification from their appropriate supervisors or the Department of Accounts (Accounts). When seeking additional guidance supervisors should document their findings and consider updating Corrections' policies and procedures if necessary. The size of Corrections projects could result in material reporting errors in the Commonwealth's financial statements, which could cause an opinion qualification.

We recommend that Corrections work with Accounts to establish an internal supervisory review procedure to ensure compliance with policies and procedures. Accounts should take the appropriate steps to ensure the accuracy of capital assets reported by Corrections for the Commonwealth's financial statements. Both parties should also evaluate if Corrections staff have the knowledge to perform this function and if not, what actions should be taken.

#### Strengthen Procedures over Agency Transaction Vouchers

As identified in both the fiscal year 2005 and 2006 audit reports, Corrections continues to need to improve the supervisory review and approval process for verifying and approving agency transaction vouchers (ATVs). Corrections uses ATVs to make adjustments or correct errors for financial information recorded in CARS. Previous audits have identified that documentation supporting ATVs did not properly identify both the preparer and the approver of the transaction.

In April 2007, Corrections reminded their facilities by e-mail to have both preparers and approvers sign and date each ATV. However, Corrections did not modify the ATV form to include a section for signatures and dates to reinforce on the form that both signatures are necessary.

We recommend that Corrections establish an internal supervisory review procedure to ensure compliance with policies and procedures within the Central Office. Corrections should also evaluate if the staff have the knowledge to perform this function and if not, what actions should be taken.

## AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Corrections (Corrections) operates the state's correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. Corrections also coordinates parole activities with the Parole Board. Corrections provides the Parole Board with services that include processing financial transactions and preparing financial reports. This report describes in more detail later the operations of each of Corrections' programs and the Parole Board.

### Corrections Funding

Corrections' primary source of funding is General Fund appropriations, which pay 99 percent of the operating expenses. Corrections also receives monies through federal grants and for housing out-of-state inmates. The following schedule compares selected operating statistics for the past six fiscal years.

	Fiscal Year <u>2002</u>	Fiscal Year <u>2003</u>	Fiscal Year <u>2004</u>	Fiscal Year <u>2005</u>	Fiscal Year <u>2006</u>	Fiscal Year <u>2007</u>
Average annual cost per inmate	\$19,913	\$20,142	\$20,401	\$21,248	\$23,123	\$22,830
Total operating budget (in millions)	\$ <u>777</u>	\$ <u>768</u>	\$ <u>774</u>	\$ <u>814</u>	\$ <u>874</u>	\$ <u>895</u>

*Sources: Management Information Summary Report and Population Summary prepared by Corrections and Chapter 3 Appropriation Act with the Virginia Parole Board's FATS transactions*

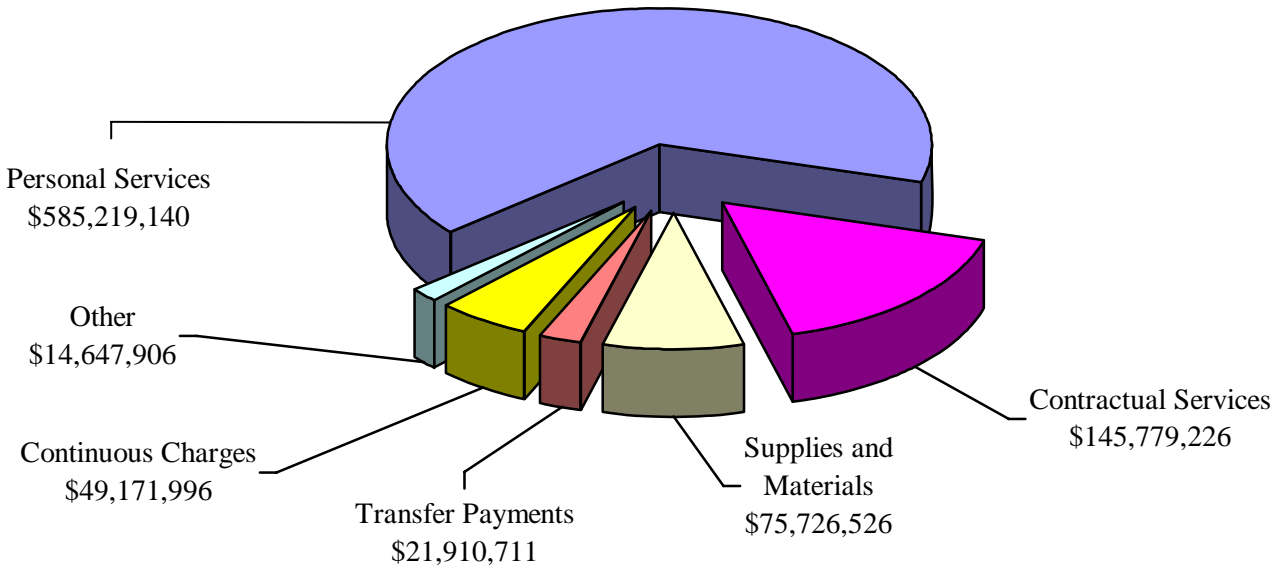
Budget increases in 2004 through 2007 are mostly due to salary and fringe benefit increases and Corrections largest operating expense is payroll and fringe benefit costs for its employees, most of whom work in the correctional facilities. Although Corrections has an authorized employment level of 13,548 positions, the actual average number of employees during the year was 11,621, resulting in approximately 1,927 vacant positions.

This vacancy variance results from four factors:

1. The phased-in hiring for Pocahontas State and Green Rock Correctional Centers, which opened in fiscal year 2007 against a full annual authorized position level.
2. The inclusion of the authorized position level for St. Brides Phase II, which has not yet opened and for which there has been no hiring.
3. The ongoing difficulty in recruiting and retaining correctional officer staff.
4. Lastly, during fiscal year 2007, Corrections' authorized employment level included 163 unfunded authorized positions which the Governor's Budget Bill, as introduced during the 2008 General Assembly Session, administratively eliminated. This elimination will take effect in fiscal year 2009.

Corrections' second largest expense item is contractual services. Corrections has several large contracts for services at various facilities including food services, medical and prescription drug services, and phone services. The following chart shows total operating expenses by type for fiscal year 2007.

### Operating Expense by Type



Corrections uses the Commonwealth Accounting and Reporting System (CARS) as its primary financial accounting system, but CARS does not include the inmate trust funds and commissary funds. Corrections maintains separate bank accounts for each of these funds at each facility.

Inmate trust funds are funds held for inmates and totaled \$7.5 million at June 30, 2007. The individual facilities also manage commissary funds that arise from the sale of personal products to inmates. Beginning in 2003, Corrections contracted with a private vendor to operate the commissaries, with the vendor paying Corrections a 6.5 percent commission on all sales. Each facility has the option of contracting their commissary operations or continuing to operate it themselves. All but three facilities have chosen to contract out their commissary operations.

In addition to the operating expenses discussed above, Corrections also has capital outlay and maintenance reserve expenses. In fiscal year 2007, Corrections spent \$92 million for capital outlay of which \$25.5 million was for the construction of Pocahontas State Correctional Center, \$25.4 million for the Green Rock Correctional Center, \$19.5 million for Phase II of the St. Brides Correctional Center, \$5.6 million for the replacement of the Water Treatment Plant at the James River Correctional Center, and \$4.3 million for the Deerfield Correctional Center expansion. Maintenance reserve expenses totaled \$2 million for fiscal year 2007.



The following table summarizes Corrections' budget and actual operating activity for fiscal year 2007:

Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Operation of secure correctional facilities	\$747,475,663	\$713,811,716	\$713,525,899
Supervision of offenders and re-entry services	79,282,630	81,791,177	81,246,616
Administrative and support services	65,479,725	79,548,329	77,673,891
Operation of state residential community correctional facilities	<u>19,482,412</u>	<u>19,325,275</u>	<u>19,256,838</u>
Total	<u>\$911,720,430</u>	<u>\$894,476,497</u>	<u>\$891,703,245</u>

Overall, Corrections' original budget decreased by over \$17 million as a result of a payroll loan repayment which we discuss in more detail later. Information on each of Corrections' program areas and the Parole Board is provided below.

*Operation of Secure Correctional Facilities*

The Operation of Secure Correctional Facilities Program represents efforts to house and supervise persons convicted of crimes and committed to the state by courts to serve their sentences. This program includes the following service areas: Supervision and Management of Inmates, Rehabilitation and Treatment Services, Prison Management, Food Services, Medical and Clinical Services, Agribusiness, Correctional Enterprises, and Physical Plant Services.

As previously referenced in the table above, Corrections transferred approximately \$20 million during fiscal year 2007 from this program for a repayment of Corrections' portion of the deficit loan. This loan occurred at the end of fiscal year 2006 in order to support the July 3, 2006 payroll.

*Supervision of Offenders and Re-entry Services*

The Supervision of Offenders and Re-entry Services Program represents efforts to provide supervised custody of offenders within the community as an alternative to institutionalization and to continue the provision of community rehabilitative services to them after their release from confinement. This program includes the following service areas: Probation and Parole Services, Day Reporting Centers, Community Residential Programs, and Administrative Services.

In fiscal year 2007, this Program's final budget increased slightly over the original budget.

*Administrative and Support Services*

The Administrative and Support Services Program represents the administrative management and direction for all of Corrections' activities. These activities include the following: General Management and Direction, Information Technology, Accounting and Budgeting, Architecture and Engineering, Personnel,

Planning and Evaluation, Procurement and Distribution, the Training Academy, and Offender Classification and Time Computation.

During fiscal year 2007, this Program's budget increased by approximately \$14 million. This increase is the results of a transfer from other programs within the agency to realign appropriations to correspond with the agency's current operating budget. The increase in this Program comes from the transfer from Central Appropriations for salary, benefits, and mileage reimbursement funding.

#### *Operation of State Residential Community Correctional Facilities*

The Operation of State Residential Community Correctional Facilities Program represents efforts to operate community detention and diversion centers for offenders assigned to them by courts in lieu of incarceration in secure prisons. This program includes the following service areas: Community Facility Management, Supervision and Management of Probates, Rehabilitation and Treatment Services, Medical and Clinical Services, Food Services, and Physical Plant Services.

In fiscal year 2007, there were no significant changes between the original and final budgets for this Program.

#### Virginia Parole Board

##### Budget and Actual Expense Analysis by Program for Fiscal Year 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Probation and parole determination	\$692,363	\$773,750	\$752,259

The Probation and Parole Determination program within the Virginia Parole Board enables Corrections the ability to investigate and supervise sentenced felons and multi-misdemeanants in the community under conditions of Probation, Post-Release or Parole, and special conditions as set by the Court or the Parole Board. The Commonwealth abolished parole for felonies committed on or after January 1, 1995, but over 75 percent of the "no parole" offenders have supervised probation following incarceration.

Duties within this activity include: case supervision, surveillance, assuring safety and security of staff, providing transitional services to offenders returning to communities, home visits, investigations and other work in support of the Courts, arrest record checks, urinalysis, referral to or direct provision of treatment services, maximizing the use of technology, and support for transfer of supervision to other localities or states. The objectives of these services are to assure that an offender does not pose a threat to the community, to offer offenders opportunities to modify behavior and attitudes, and to effect positive changes in offenders through supervision and intervention.

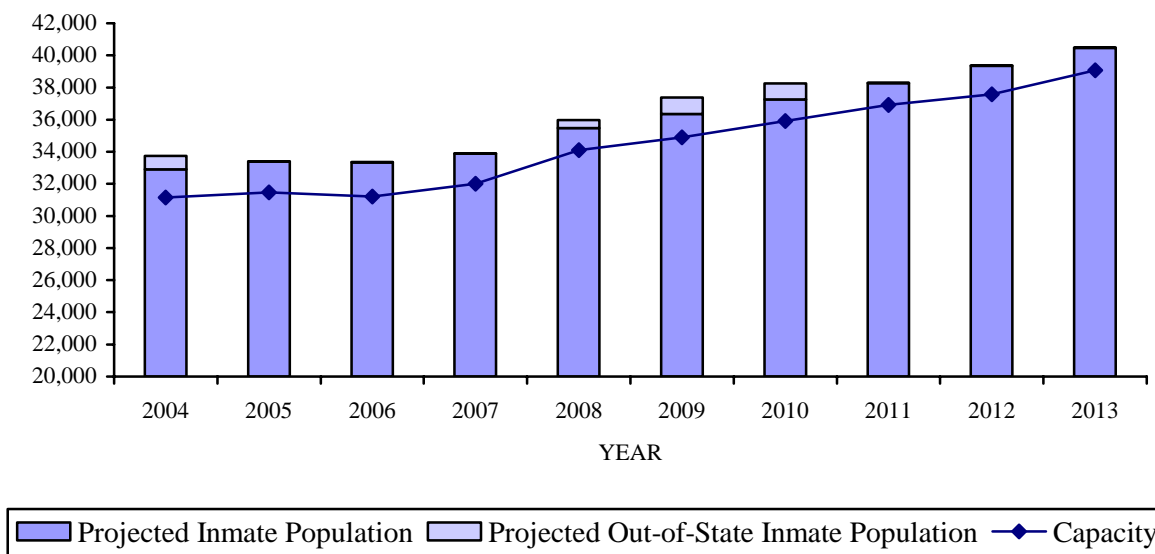
In fiscal year 2007, there were no significant changes between the original and final budgets for this Program.

## Inmate Population Forecasts and Capacity

Corrections and the Secretary of Public Safety regularly estimate and analyze inmate population, trends, and facility capacity. The Secretary of Public Safety provides an annual report in October to the Governor and General Assembly that shows offender population forecasts for the next six years. Experts from state government including the Departments of Planning and Budget, Juvenile Justice, Corrections, Criminal Justice Services, Virginia Parole Board, State Police, Compensation Board, Supreme Court, Senate Finance, House Appropriations, and the Virginia Sheriff's Association work along with researchers, methodologists and analysts to prepare the offender forecast.

The Secretary of Public Safety's forecasts includes all state responsible inmates, including those temporarily housed in local jails, serving their sentence in a local jail, or in a local jail work release program. Corrections uses the Secretary's forecasts and makes adjustments to account for those locally jailed inmates when estimating their future inmate populations that need to be housed in Correction's facilities. The following graph shows those adjusted population and capacity forecasts through 2013

**Prison Population and Capacity Analysis**



Source: Corrections' Master Plans

Prison capacity increases in the later years reflect construction of new prisons and additions to existing prisons. During fiscal year 2007, Corrections completed an expansion at the Deerfield Correctional Center and new construction of the Green Rock Correctional Center and began housing inmates in December 2006 and May 2007, respectively. Completion of construction on the Pocahontas Correctional Center occurred in the first quarter of fiscal year 2008 and began housing inmates in September 2007. Construction on Phase II of St. Brides is near completion and housing inmates occurred in December of 2007. In 2007, the General Assembly approved \$99 million of Virginia Public Building Authority (VPBA) funds plus \$1.5 million in General Funds for the construction of Grayson, a medium security facility in the Mount Rogers Planning District.

Corrections has all facilities double-bunking inmates to various extents. Most facilities have already reached their maximum capacity for double-bunking, and there are approximately 913 temporary beds

statewide. Corrections has a long-term goal to discontinue the use of temporary beds, but must use the beds in order to relieve the critical inmate backlog in local jails and to maintain beds for rent to other states due to the budget reductions. Corrections calculates the number of out of compliance inmates daily. As of March 2008, there are approximately 1,469 out of compliance State responsible inmates in local jails. Inmates classified as out of compliance have remained in local jails past the 60 day period that Corrections has to retrieve the inmate from the local jail.

Corrections proposed a strategy of compensating for budget reductions by contracting additional out-of-state inmates in fiscal years 2008, 2009, and 2010. Corrections' goal in fiscal year 2008 was to contract approximately 500 out-of-state inmates, increasing that goal to about 1,000 for both fiscal years 2009 and 2010. By fiscal year 2011, Corrections plans to reduce its out-of-state inmate population again, which will reduce its capacity shortfall. Depending on the future economy and budget changes, Corrections will adjust its out-of-state projections as necessary.

### Information Systems

Corrections is implementing an automated Offender Management Information System, VirginiaCORIS (VaCORIS), which will replace over ten antiquated legacy systems. CORIS is the software solution purchased from the xwave New England Corporation.

VaCORIS is an initiative to modernize the way Corrections manages offender information. The system will provide real time offender data to authorized users, enhance the ability to share offender information with others, improve the quality of the offender data, and improve the reporting and decision making ability of the entire Department. The final product will result in a single, fully integrated system that will replace Corrections' legacy offender-related applications.

VaCORIS has three major projects: Offender Sentence Calculation (Project 1), successfully implemented in March 2006; Community Corrections (Project 2); and Institutional Operations (Project 3). VaCORIS is in the Planning, Execution and Control phase of Project 2 where staff defines the tasks and builds the unique product or services of the system. Project 2 will have two releases. Release 1 should go live in October 2008 and Release 2 in March 2009. The project is currently on schedule.

### Prison Privatization

Corrections has one privately-operated medium security prison in Lawrenceville which opened in 1998. The Geo Group, Inc. (formerly the Wackenhut Correctional Corporation) is operating the prison under a contract with Corrections that requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only male inmates and does not have a major medical facility. The contract per diem rate is currently \$40.63 for the first 1,425 inmates and \$6.87 for each inmate above 1,425. The contract adjusts the per diem rates annually on March 23 based on the Consumer Products Index for wage earners. Also under the contract, the GEO Group must maintain the American Corrections Association (ACA) accreditation and meet Corrections' internal standards. In its most recent re-accreditation inspection, the Lawrenceville Correctional Center met 100 percent of mandatory and 100 percent of non-mandatory ACA standards and received its reaccreditation again in January 2007.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

June 4, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of Corrections** and **Virginia Parole Board** (herein collectively identified as the Department) for the year ended June 30, 2007. We conducted this performance audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Department's inventory and payroll balances and transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2007. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, reviewed the adequacy of the Department's internal control, tested for compliance with applicable laws and regulations, and reviewed corrective actions of audit findings from the prior year report.

## Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, including controls for administering compliance with applicable laws and regulations, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Appropriations	Inmate trust funds
Expenditures including payroll	Commissary funds
Contract management	Inventory

We performed audit tests we deemed necessary to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Department's Annual Management Information Summaries Report and Master Plan Reports.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department has not taken corrective action with respect to audit findings reported in the prior report. These matters entitled "Strengthen Supervisory Reviews over Capital Assets and Construction in Progress" and "Strengthen Procedures over Agency Transaction Vouchers" are repeated in the section entitled "Audit Findings and Recommendations." The Department has taken corrective action on prior year findings that are not repeated in this report.

### EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this letter with management on June 30, 2008. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



# COMMONWEALTH of VIRGINIA

GENE M. JOHNSON  
DIRECTOR

*Department of Corrections*

P. O. BOX 26963  
RICHMOND, VIRGINIA 23261  
(804) 674-3000

June 30, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

RE: APA Audit Report on the Department of  
Corrections and Virginia Parole Board for Fiscal Year  
Ended June 30, 2007

Dear Mr. Kucharski:

Enclosed is the Department of Corrections' response to the Auditor of Public Accounts (APA) report on the examination of the Department and the Virginia Parole Board for the fiscal year ended June 30, 2007. We appreciate the opportunity to respond to the report findings prior to formal publication of the report.

We believe that our responses, accompanied by corrective action plans, where appropriate, specifically address the issues raised by the APA, and trust that actions already taken and currently under way will serve to strengthen our control environment.

Please let me know should you have any questions regarding this response.

Sincerely,

A handwritten signature in cursive script that reads "N. H. Scott".

N. H. Scott  
Deputy Director  
Administration

Enclosure

Cc: Mr. Gene M. Johnson  
Mr. David A. Von Moll  
Mr. Theodore C. Link

# **APA AUDIT REPORT FOR FISCAL YEAR 2007**

## **APA FINDINGS & RECOMMENDATIONS**

### **DOC RESPONSES & ACTION PLANS**

#### **APA FINDING #1 – Develop Internal Controls for Leave Liability and Time Tracking System**

The Department of Corrections recently adopted a new time and leave system (DOCXL) and ceased using the Commonwealth's leave accounting system. We found that DOCXL does not have adequate internal controls resulting in unreliable data. Best practices such as audit trails, controls to prevent changes to formulas and computations, and capture of all transactional activity, do not exist in DOCXL. The DOC would be an ideal candidate to implement an enterprise time and effort application that the Virginia Enterprise Applications Project Office is planning to offer. However, the timeframe for implementing any enterprise solution of this nature is uncertain at this time. As an interim solution, we recommend that the Department of Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls.

#### **DOC RESPONSE**

Management is interested in participating in an active capacity in the development of the enterprise time and effort application that VEAP is planning for the Commonwealth. If the project will be delayed for a substantial period of time, it may be appropriate for DOC to pursue the development of its own system. However, the current budget environment does not support the expense of such a project. Moreover, internal technical resources are currently committed to existing projects for the foreseeable future. Nevertheless, as the financial picture of the Commonwealth and the DOC improves and technical resources become available, DOC will evaluate the feasibility of moving forward with a project to replace the existing DOCXL time and leave system. In the meantime, Management will continue to look for opportunities to improve upon the existing system by strengthening its controls.

#### **APA FINDING #2 – Enforce Inventory Procedures**

Corrections needs to enforce their existing procedures for taking their physical inventory and pricing items in the inventory system. We recommend that Corrections increase facility personnel knowledge regarding proper segregation of duties and physical inventory procedures by incorporating regular training to strengthen this understanding. Corrections should also require facility business office supervisors to ensure their facility complies with inventory procedures.



### **DOC RESPONSE**

Management is committed to the implementation of a new “Centralized Inventory Management and Control System” in FY’09 which will, among other things, significantly simplify the physical inventory-taking process and other related manual tasks and result in a higher level of compliance with the new procedures required to govern the new system. Appropriate training has commenced at a number of facilities and will continue for personnel at each remaining facility prior to being converted to the web-based *eInventory* system.

It is anticipated that all DOC agencies will be using the new inventory system by the end of FY’09.

*ACTION PLAN* - A new web-based *eInventory* system will be operational in all DOC agencies in fiscal year ’09.

*RESPONSIBLE POSITION* - DOC Controller

*DUE DATE* - 4<sup>th</sup> Quarter of FY’09

### **APA FINDING #3 – Properly Complete Employment Eligibility Verification Forms**

Corrections is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the United States Citizenship and Immigration Services of the United States Department of Homeland Security in its Handbook for Employers. We recommend that the Human Resource Division document policy and procedures regarding the I-9 process, train human resource staff on the requirements of completing I-9 forms, and develop procedures to continuously review I-9 forms for compliance with federal regulations.

### **DOC RESPONSE**

Management concurs with the auditors’ findings and has taken the following actions to improve upon compliance with I-9 Guidelines. DOC Agency Human Resource personnel received training in June 2008 relating to the specific requirements of completing I-9 forms. Moreover, Headquarters HR Review Teams have included as a part of their on site periodic reviews, criteria relating to the I-9 process. Results from these annual reviews will be used to determine the need for additional training sessions, which would be delivered via the Annual DOC Human Resource Conference.

**APA FINDING #4 – Strengthen Supervisory Reviews over Capital Assets and Construction in Progress**

Corrections continues to have misstatements related to capital assets. We recommend that Corrections work with Accounts to establish an internal supervisory review procedure to ensure compliance with policies and procedures. Accounts should take the appropriate steps to ensure the accuracy of capital assets reported by Corrections for the Commonwealth's financial statements. Both parties should also evaluate if Corrections staff have the knowledge to perform this function and if not, what actions should be taken.

**DOC RESPONSE**

Management attributes its continued problems in the area of fixed assets to understaffing and the need for continuous training of new personnel. Additionally, positions assigned FAACS duties generally also have many other unrelated duties and thus have limited time to devote to FAACS responsibilities. These staffing and training problems are further exacerbated by the continued changing FAACS environment where new standards and directives requiring additional written policies/procedures which in turn lead to the requirement for more and more resources. It has been impossible to keep up in such an environment with part-time personnel.

In response to this finding, the DOC Controller will determine the current needs related to the central FAACS function and recommend staffing and training requirements to Executive Management.

***ACTION PLAN*** - The DOC Controller will determine the current needs of the central FAACS function and recommend staffing and training requirements to the Deputy Director of Administration.

***RESPONSIBLE POSITION*** - DOC Controller

***DUE DATE*** - 4<sup>th</sup> Quarter of FY'09

**APA FINDING #5 – Strengthen Procedures Over Agency Transaction Vouchers**

As identified in both the fiscal year 2005 and 2006 audit reports, Corrections continues to need to improve the supervisory review and approval process for verifying and approving agency transaction vouchers (ATV's). We recommend that Corrections establish an internal supervisory review procedure to ensure compliance with policies and procedures within the Central Office. Corrections should also evaluate if the staff have the knowledge to perform this function and if not, what actions should be taken.

### **DOC RESPONSE**

**DOC Management will ensure that the current standardized ATV form which is housed on the Agency's shared network is updated to include a signature and date line for both the Preparer of the ATV form as well as the Approver of the ATV form. Additionally, Management will also insert directly upon the form its policy requiring use of the standardized form as well as any procedural requirements for completing the form.**

***ACTION PLAN* - Modify the ATV form to include a signature and date line for both the Preparer as well as the Approver of the ATV form, and incorporate any procedural requirements for completing the form.**

***RESPONSIBLE POSITION* - DOC General Accounting Manager**

***DUE DATE* - 1<sup>st</sup> Quarter of FY'09**

## DEPARTMENT OF CORRECTIONS

Gene Johnson, Director

John Jabe, Deputy Director

N.H. "Cookie" Scott, Deputy Director

James R. Camache, Deputy Director

H. Paul Broughton, Deputy Director

Ted Link, Controller

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